HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Sherbrooke CMA

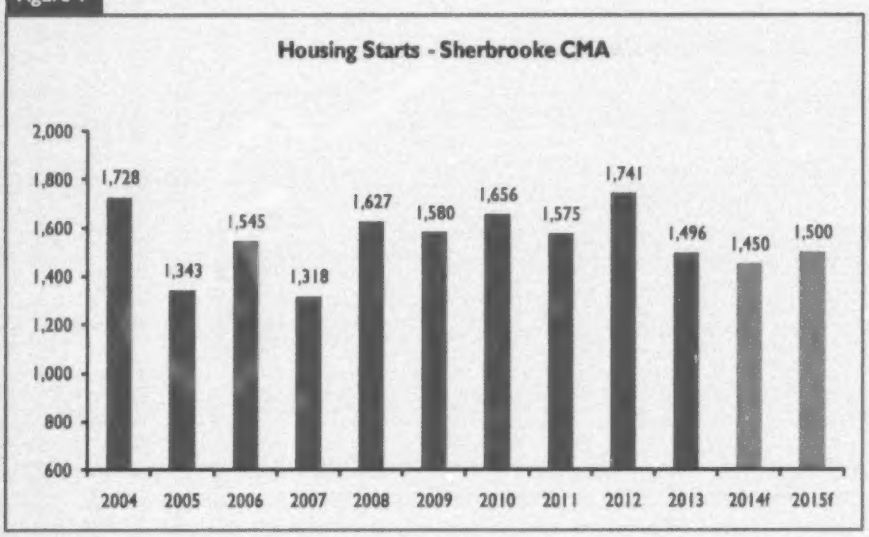
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Spring 2014

Highlights

- Housing starts in the Sherbrooke census metropolitan area (CMA) will continue to fall in 2014.
- The resale market is still favourable to buyers but should become balanced by 2015.
- The rental housing vacancy rate will remain stable in 2014, staying at 5.2 per cent.
- Employment should grow moderately in 2014 and 2015.

Figure 1



Source: CMHC f: CMHC forecasts

The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents risks where appropriate. The forecasts and historical data included in this document reflect information available as of April 30, 2014.

Table of Contents

1 Highlights

2 New home market: housing starts to reach lower levels than in past years

2 Existing home market: conditions to remain soft

3 Rental market: vacancy rate to remain relatively high but stable in 2014

3 Economic trends: slight employment recovery and positive net migration

4 Mortgage rates

5 Trends at a glance

6 Forecast Summary

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HOME TO CANADIANS

New home market: housing starts to reach lower levels than in past years

The supply of existing homes for sale in the Sherbrooke area increased over the past year, while sales decreased. As buyers have sufficient choice on the resale market, there is less need for construction on the new home market. At the same time, the inventory of unsold new units has risen in recent years. This inventory increased more significantly in 2013, mainly on account of the single-detached home segment, which has been on the decline in the area for the past few years. With supply having exceeded demand, residential construction will slow down once again this year.

From January to March 2014, foundations were laid for close to 215 housing units in the Sherbrooke CMA. We expect that this rate will be maintained and that total housing starts will reach 1,450 units in 2014, down by 3 per cent from 2013. The Quebec economy should post moderate growth in 2014, which will have positive spinoffs in the Sherbrooke area, particularly on the employment front. This should have a positive impact on housing starts in 2015, and they will rise by 5 per cent to 1,500 units. This volume of construction will however remain below the levels recorded in previous years.

Single-detached housing starts in the Sherbrooke CMA should drop in 2014, as foundations should be laid for 350 such homes, or 92 fewer than in 2013. In 2015, fuelled by the employment recovery and more favourable economic conditions in the area, starts of this type should post a small gain, to 400 units. Once again, this level will remain well below the volumes recorded in previous years (average of about 640 units per year from 2007 to 2012).

In the multi-unit housing segment, the trends are mixed. Semi-detached and row home construction in the Sherbrooke area should remain stable this year, after having registered a decrease in 2013. Starts of such houses, which are popular among first-time homebuyers, thanks to their affordability, had increased significantly from 2009 to 2012. However, this growth was slowed by the tightening of the mortgage rules, and following the adjustment in 2013, the construction of homes of this type should remain stable in 2014 and 2015.

Apartment starts in the Sherbrooke area should rise slightly this year and next year. Condominiums should benefit from an increase in demand from first-time homebuyers, who are turning to this housing type, which is even more affordable than semi-detached and row homes. Rental apartment starts, for their part, should stay stable in 2014, with demand for new rental dwellings in the area remaining steady. Overall, the multi-unit housing segment should therefore post small increases in activity in 2014 and 2015.

Existing home market: conditions to remain soft

For the past few years, the resale market has been easing in the Sherbrooke CMA. This has been due to a decrease in demand combined with an increase in supply.

On the demand side, the slower employment growth observed last year and the recent tightening of the mortgage financing rules limited the number of buyers on the resale market. As for supply, the steady pace of starts recorded from 2008 to 2012 contributed to increasing the number of properties for sale on the existing home market.

And again in the first quarter of this year, transactions were down (-5 per cent) and active listings were up (+5 per cent). Currently, the

Figure 2

Source: QFREB by the Centris® system f: CMHC forecasts

Sherbrooke area resale market remains favourable to buyers.

However, sales of existing homes should show some renewed growth this year and next year, thanks to the better economic environment and the still attractive financing conditions resulting from the continued low mortgage rates. In fact, transactions should rise by 2.0 per cent in 2014, to 1,700 sales, and then by 4.7 per cent in 2015, to 1,780 sales. Like for housing starts, these volumes will remain below the levels recorded in recent years. The market will continue to favour buyers in 2014 but should then move into balanced territory in 2015 following the anticipated increase in demand.

In 2014, this should translate into a small increase in the average price, which should reach $234,000, for a gain of 2.0 per cent over 2013. In 2015, the average price will climb to $238,000, up by 1.7 per cent.

Figure 3

Source: CMHC f: CMHC forecasts

Rental market: vacancy rate to remain relatively high but stable in 2014

Given the favourable mortgage rates, many renters became homeowners in recent years. These first-time homebuyers opted mainly for affordable housing types, such as semi-detached houses, row homes and condominiums. After the renters left, through, numerous rental dwellings remained vacant, as they did not find new takers. In 2013, the vacancy rate in the Sherbrooke area reached 5.2 per cent—the highest among the rates recorded in the six metropolitan areas across Quebec.

Still, rental apartment starts will remain stable in the Sherbrooke area, thanks to the steady demand for new rental dwellings. In fact, while new units have higher rents, they seem to be meeting a demand on the part of some renters; in 2013, the vacancy rate for new rental dwellings was below the 3-per- cent mark.

The combination of these factors could lead to a vacancy rate increase, but the rise will be limited by the steady demand. In fact, with a slowdown in the movement to homeownership, good job prospects for young people and policies aimed at raising net migration in the area, the vacancy rate will remain stable in 2014, staying at 5.2 per cent. In 2015, the anticipated decline in rental housing construction and the continued steady demand on the rental market should help bring the vacancy rate down to 5.0 per cent.

Economic trends: slight employment recovery and positive net migration

After having been on a downward trend for the past few years, employment in the Sherbrooke area was up slightly in the first quarter of 2014. This increase was mainly attributable to the service and manufacturing sectors, which respectively account for 53 per cent and 14 per cent of the job market. As well, both full-time and part-time positions in the area have posted gains since the beginning of the year.

The moderate economic growth expected across Quebec this year should have a positive effect on employment in the Sherbrooke area. The recent decrease in the value of the Canadian dollar against its U.S. counterpart could also favour the goods and services exporting industries as well as tourism in the area.

Job should therefore post moderate gains of about 1 per cent in both 2014 and 2015.

The Sherbrooke metropolitan area continues to attract migrants. For over 10 years now, net migration has remained positive, year after year. In 2013, net migration reached 2,029 people.

Interprovincial net migration in the Sherbrooke CMA has been positive

for the past few years, reaching 765 people in 2013. The proportions of people aged 65 or older coming to settle in the area have been relatively high in recent years. In 2013, net migration in this age group reached 165 people. This trend should continue over the coming years in Sherbrooke and will certainly have an impact on the retirement home market as well as on the market for smaller, easy-to-maintain dwellings, such as apartments and condominiums.

As Sherbrooke is a university city, many young people aged from 15 to 24 also come to settle in the area; net migration in this age group reached 435 people in 2013. These people mainly fuel demand for rental dwellings. However, a good proportion of them decide to leave the area after their studies, as the area lost 285 people aged from 25 to 34 in 2013; this is a trend that has been in place for the past ten years or so and that should continue in 2014 and 2015.

Lastly, under a specific immigration agreement in the Eastern Townships, revealed last March, $2.2 million will be invested over five years to attract immigrants to the Sherbrooke area. This agreement could therefore have a positive effect on net migration. In this regard, we estimate that the levels will reach 2,150 people in 2014 and then 2,350 people in 2015.[1]

The expected employment growth and positive net migration will support housing demand in the Sherbrooke area.

Mortgage rates to see gradual and modest increases by the end of 2015, but will remain low by historical standards

Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to register gradual and modest increases by the latter part of the 2015 forecast horizon. This will lead to increases in mortgage rates. Despite this, mortgage rates will remain low and will continue to support housing market activity over the forecast horizon.

According to CMHC's base case scenario for 2014, the average for the one-year posted mortgage rate is forecast to be within 3.0 per cent to 3.50 per cent, while the average for the five-year posted mortgage rate is anticipated to be within 5.0 per cent to 5.5 per cent. For 2015, the average for the one-year posted mortgage rate is expected to rise and be in the 3.20 per cent to 4.25 per cent range, while the average for the five-year posted mortgage rate is forecast to be within 5.25 per cent to 6.0 per cent.

[1] If this agreement is maintained.

Trends at a glance

Key Factors and their Effects on Housing Starts	
Mortgage Rates	Mortgage rates will remain low by historical standards and supportive of housing demand.
Employment	After decreasing in 2013, employment should grow slightly in 2014 and 2015, which would sustain housing demand.
Income	In the first quarter of 2014, average weekly earnings were down slightly from the same period a year earlier. The job creation expected in 2014 and 2015 should have a positive effect on income, which should support housing demand.
Population	Positive net migration will stimulate demand for all types of housing in 2014 and 2015, especially rental housing.
Resale Market	Conditions on the resale market will remain favourable to buyers in both 2014 and 2015, and the growth in prices will be weak. The easing of the resale market will have a negative impact on the new home market.

Forecast risks

- The decrease in the value of the Canadian dollar could have less impact than expected.
- Employment growth could be more moderate than anticipated on account of preceding risk. Should that be the case, this would further limit housing demand this year and next year. The existing, new and rental housing markets would therefore be affected.

Forecast Summary Sherbrooke CMA Spring 2014							
	2011	2012	2013	2014f	% chg	2015f	% chg
New Home Market							
Starts:							
Single-Detached	557	610	442	350	-20.8	400	14.3
Multiples	1,018	1,131	1,054	1,100	4.4	1,125	2.3
Starts - Total	1,575	1,741	1,496	1,450	-3.1	1,525	5.2
Average Price ($)							
Single-Detached	256,365	279,010	303,165	303,000	-0.1	308,000	1.7
Median Price ($):							
Single-Detached	235,000	260,000	292,500	295,000	0.9	298,000	1.0
New Housing Price Index (% chg) (Que.)	2.6	1.7	1.0	n.d.	-	n.d.	-
Resale Market							
Centris® Sales	1,883	1,784	1,665	1,700	2.1	1,780	4.7
Centris® New Listings	3,630	3,578	3,338	3,450	3.4	3,500	1.4
Centris® Active Listings	1,509	1,666	1,673	1,700	1.6	1,750	2.9
Centris® Average Price ($)	214,358	216,662	229,483	234,000	2.0	238,000	1.7
Rental Market							
October Vacancy Rate (%)	4.7	5.0	5.3	5.2	-	5.0	-
Two-bedroom Average Rent (October) ($)	577	578	591	600	-	610	-
Economic Overview							
Mortgage Rate (1 year) (%)	3.52	3.17	3.08	3.00 - 3.50	-	3.20 - 4.25	-
Mortgage Rate (5 year) (%)	5.37	5.27	5.24	5.00 - 5.50	-	5.25 - 6.00	-
Annual Employment Level	99,000	98,100	94,100	95,000	1.0	96,000	1.1
Employment Growth (%) - excluding Magog	6.9	-0.9	-4.1	1.0	-	1.1	-
Unemployment rate (%)	6.9	7.5	7.0	7.5	-	7.2	-
Net Migration	1,852	2,067	2,029	2,150	6.0	2,350	9.3

[1]The Centris® system contains all the listings of Québec real estate brokers.

[2]Source: CMHC (Starts and Completions Surve, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Statistics Canada (CANSIM), Centris® Statistics. CMHC Forecast (2013-2014)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly Starts and Completions Survey. Building permits are used to determine construction sites and visits confirm construction stages. A start is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's Market Absorption Survey, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "absorbed" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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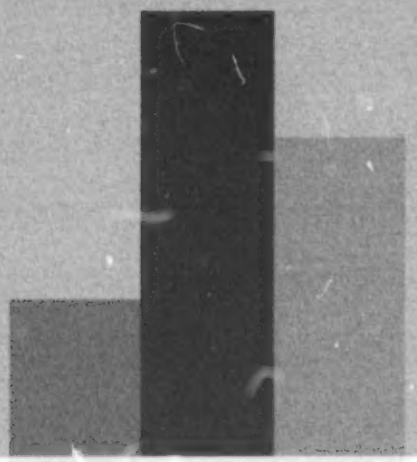

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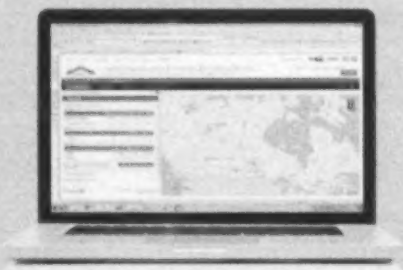

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